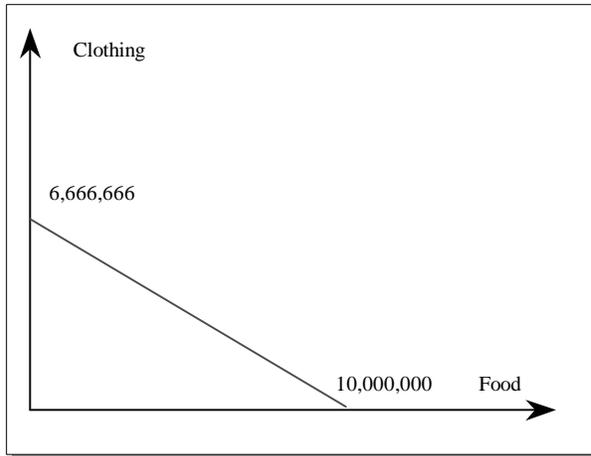


Suppose that there are only two goods that are made, that is food and clothing. And suppose that there is a total of 20,000,000 units of labor and it takes 2 units of labor to make 1 unit of food, and it takes 3 units of labor to make 1 unit of clothing. What is the Production Possibilities Curve look like? Graph it.



Is this linear, concave or convex? **linear**

What is the maximum number of units of food that can be made? **10,000,000**

What is the maximum number of units of clothing that can be made? **6,666,666**

What is the slope? **-2/3**

Is opportunity cost of clothing constant, increasing or decreasing? **constant**

If so what is it? **1.5 or 3/2 units of food.**

Is opportunity cost of food constant, increasing or decreasing? **constant**

If so what is it? **~0.66 or 2/3 units of clothing.**

What would be the case if instead of a constant units of labor of each good, instead the first good of clothing or food each takes 2 units of labor, each successive unit after that takes greater and amounts of labor.

What can you say about the intercepts of the P-P curve?

What can you say about the maximum amount of food that can be made?

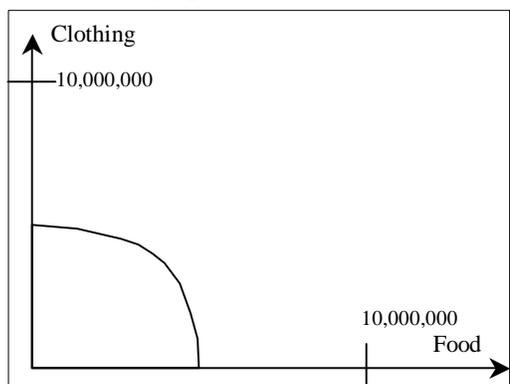
< 10,000,000

What can you say about the maximum amount of clothing that can be made?

< 10,000,000

What is the shape of the P-P curve? Linear, concave, or convex? **Concave**

What would the graph look like?



In this situation what is the OC of food? Is it constant, increasing or decreasing with each successive unit? **Increasing**

Why? (**The labor required for the next unit of food increases, and it decreases the amount of clothing decreasing the labor required for clothing, so it costs more units of clothing every time**)

In this situation what is the OC of clothing? Is it constant, increasing or decreasing with each successive unit? **Increasing**

Why? **Same thing as before**

Suppose now that it takes 2 units of labor for each unit of food, and 2 units of labor for the first unit of clothing, but each successive unit after that requires greater and amounts of labor.

What can you say about the intercepts of the P-P curve now?

What can you say about the maximum amount of food that can be made?

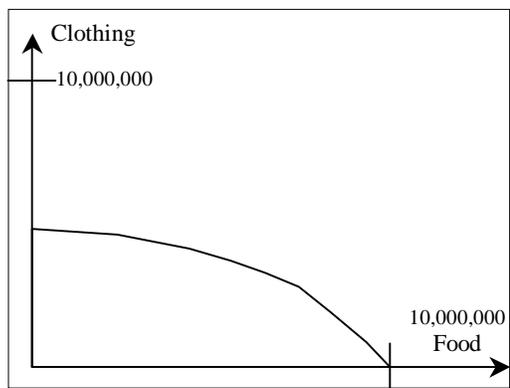
=10,000,000

What can you say about the maximum amount of clothing that can be made?

< 10,000,000

What is the shape of the P-P curve? Linear, concave, or convex? **Concave**

What would the graph look like?



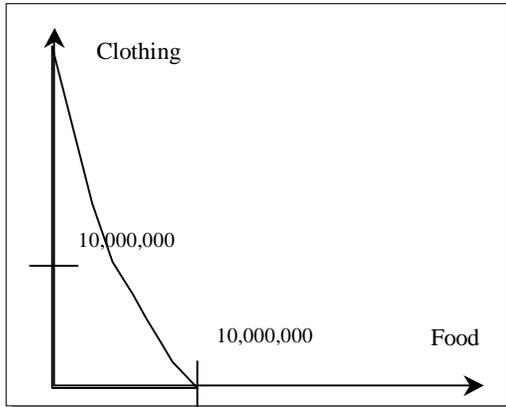
In this situation what is the OC of food? Is it constant, increasing or decreasing with each successive unit? **Increasing**

Why? (**The labor required for the next unit of food is constant, but since it decreases the amount of clothing it increases the amount of clothing that a unit of labor makes, also the OC for the good on the vertical axis is negative the slope, and for the good on the horizontal axis it is the negative inverse**)

In this situation what is the OC of clothing? Is it constant, increasing or decreasing with each successive unit? **Increasing**

Why?

What does the graph look like if instead of requiring greater and greater amount of labor for each successive unit of clothing, less and less labor is required for each successive unit of clothing, and it takes 2 units of labor for the first unit?



(This graph is a convex graph note that there is still a max of 10 million units of food, but the clothing is known to have a max greater than 10 million)

Now lets go back to the original problem of having 2 units of labor for each unit of clothing, and 3 units of labor for each unit of clothing.

Now suppose a new technology is invented and now up to 5 million units of clothing can be made using only 2 units of labor of each unit of clothing.

What would the graph of the P-P curve look like?

What is the maximum number of units of food that can be made? **10,000,000**

What is the maximum number of units of clothing that can be made? **8,333,333**

What is the slope? **-2/3, -1**

Is opportunity cost of clothing constant, increasing or decreasing?

constant for each segment

what is it?

1 unit of food for the first 5 million, and 1.5 units for the next 3.33 million

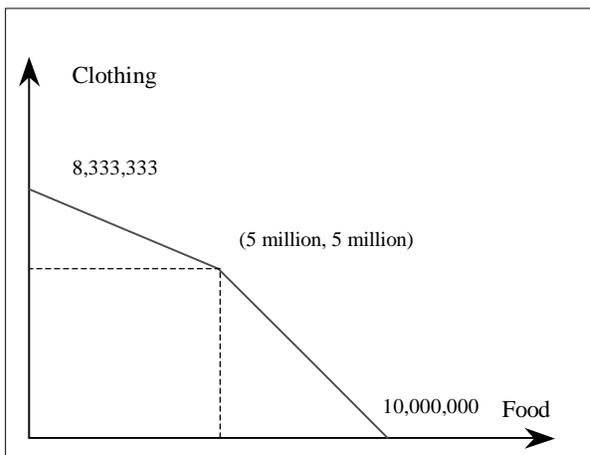
Is opportunity cost of food constant, increasing or decreasing?

constant for each segment

If so what is it?

2/3 units of clothing for the first 5 million, 1 unit for the next 5 million

Graph the P-P curve:



Supply and Demand:

The supply curve of a good is what quantity of that good producers would produce if the price were p .

The demand curve of a good is what quantity of a good consumers would want to buy if the price of that good were p .

Suppose we talk about the supply and demand of domestic cars.

What are some things that would shift the demand for cars, and which way would it shift the demand curve.

What if the price of gasoline went up to \$20.00/gallon, what would it do to the demand curve, the supply curve?

It would shift the demand curve to the right. (higher quantities)

What if the government forced all cars to have mandatory emission equipment that costs thousands of dollars per car?

So in this case the supply curve will shift to the left. If only required on new cars.

What if all cities decided to make mass transit free?

Demand curve would shift to the left.